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SUBJECT: SCENESETTER FOR ADMIRAL FITZGERALD VISIT TO MONTENEGRO

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¶11. (SBU) SUMMARY: Welcome to Montenegro. Your visit comes as the Montenegrin leadership continues its pro-West, pro-NATO, pro-American stance, while simultaneously looking to maintain good relations with Belgrade. Its effort to maintain this balance is currently being put to the test over the issue of whether or not to recognize neighboring Kosovo. The GoM remains a receptive interlocutor, eager to develop strong ties with Washington and to prove itself a reliable partner. The GoM also continues preparing for its goal of eventual NATO membership by beginning Intensified Dialogue with NATO in 2008, working to increase low public support for NATO membership, and lobbying for a Membership Action Plan (MAP) invitation at the 2009 NATO summit. The GoM is making continued contributions to the GWOT, including plans to deploy peacekeepers abroad. The growing economy is being fueled heavily by FDI in the tourism sector along the Adriatic coast. END SUMMARY

NATO Membership a Top GoM Priority

¶12. (U) The GoM has stated NATO Membership as a strategic goal. Montenegro was invited to Intensified Political Dialogue at the NATO Bucharest Summit in April 2008 and began a government-wide NATO Communications Strategy to increase support for membership among the population (presently only about 30% favors membership, 30% oppose it, and the remainder appear undecided). Montenegrin officials are hopeful an invitation to the Membership Action Plan (MAP) will be forthcoming at the next summit in spring 2009.

¶13. (U) Montenegro continues to make slow, but mostly forward progress in establishing its nascent defense institutions and future military force. The Montenegrin Armed Forces are led by Admiral Dragan Samardzic. Montenegro inherited an outdated, ill-equipped military that is still working to organize itself as a modern, NATO-interoperable force capable of contributing to peacekeeping operations. Present plans call for a 2400-person force structure under a combined service of naval, ground, and air assets. This plan is currently under revision as part of a larger Strategic Defense Review expected to be concluded later this year.

¶4. (U) Following independence, and unlike most other ministries in the GoM, the MoD -- led by Minister of Defense Boro Vucinic -- has had to build its organization from the ground up. Developing its human resource capacity is proving to be perhaps its biggest challenge. Other challenges include prioritizing requirements, building the legal and regulatory framework for its volunteer force, and establishing a functioning procurement system.

¶5. (U) In June 2008, Montenegro completed the destruction of 1500 Strela Man Portable Air Defense Systems (MANPADS) under a two million dollar USG demilitarization program. This was an important contribution in support of the GWOT, and we are continuing the program to encompass the destruction of more than 2,000 Sea Mines, rockets, and other outdated arms and ammunition. Additionally, Montenegro officially donated more than 1500 small arms weapons and 200,000 rounds of ammunition to the Government of Afghanistan in September 2007. In December 2007, the GoM signed a Transit Agreement with NATO to facilitate the use of its territory to reinforce KFOR in the event reserves are needed in Kosovo. Montenegro has signed an Article 98 Agreement with the U.S. and plans on sending peacekeeping contingents to the Near East following adoption of necessary legislation in late September.

GoM Delaying on Kosovo

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¶6. (SBU) The GoM has postponed making a decision on recognizing Kosovo's independence, but there are indications that a decision to recognize may be on the horizon. The GoM has been cautious on Kosovo, wishing neither to offend the USG, Albania, and its own ethnic Albanian minority (5% of the population) on the one hand, nor Serbia and its own ethnic Serbian population (32% of the population) on the other. (This balancing act has also influenced the GoM's effort to keep its head down on the Georgia-Russia issue.) The central concern of the GoM is that stability, regionally but also particularly within Montenegro, be maintained. Kosovo recognition also will be politically risky for the GoM. A large majority here opposes recognition of Kosovo. Montenegro's largest pro-Serb opposition forces have promised mass protests if the government recognizes. Montenegro has been consulting with Macedonia about the possibility of a joint recognition before the UNGA this September.

¶7. (SBU) There was some concern that potential disturbances in Kosovo following its declaration of independence in February 2008 could prompt refugees to enter Montenegro, but there have been no reports of new refugees entering the country. In 1999, over 100,000 IDPs from Kosovo (primarily ethnic Albanians but also including Serbs and Roma) entered Montenegro - equal to 1/6 of the local population. Most have returned home.

Stable, but Somewhat Lackluster Political Situation

¶8. (SBU) More than two years after independence, no major political parties are actively questioning Montenegro's

independence. The May 2006 referendum and subsequent September 2006 parliamentary and April 2008 Presidential contests all met international standards for free and fair elections. In October 2007, Montenegro adopted a new Constitution through democratic debate. It has moved toward the EU, signing a Stabilization and Association Agreement (SAA) in October 2007, and is currently considering seeking formal candidate status before the end of this year. Montenegro is a member of the United Nations (UN), Organization for Security and Coordination in Europe (OSCE), and the Council of Europe. It has been a constructive regional player, building good relations with neighbors and participating in numerous regional initiatives (such as CEFTA, SECI, and the Stability Pact).

¶9. (SBU) President of the ruling Democratic Party of Socialists (DPS) Milo Djukanovic, who led Montenegro from the reintroduction of multi-party democracy in 1991 to independence in 2006, declined to seek reappointment as Prime Minister after his party won the September 2006 parliamentary election. Djukanovic returned to office as PM in February 2008, when previous PM Sturanovic resigned for health reasons. Prime Minister Djukanovic's primary foreign policy goals are EU and NATO membership and he speaks candidly about the U.S. as Montenegro's "strategic partner."

¶10. (SBU) Domestically, the GoM's track record on fully implementing needed democratic and economic reforms is generally positive, with room for improvement (particularly in strengthening the rule of law). Privatization of remaining infrastructure (airports, railroad, and the port of Bar) and the energy sector is on hold, after the smaller coalition partner, the Social Democratic Party (SDP), sided with the opposition in June 2007 to halt the sale of a large thermoelectric plant and associated coal mine to firm owned by notorious Russian tycoon Oleg Deripaska. The DPS and SDP -- which differ over the state's control of strategic industries -- have sparred throughout the summer over control of various councils and laws regulating state assets.

¶11. (SBU) The opposition is fractious and to date has been ineffective in presenting a serious challenge to the DPS. Most also remain somewhat on the fence about NATO membership for Montenegro, for many just as much because of the low public support for membership and because it provides a handy issue over which to disagree with the GoM than because of any principled disagreement with NATO.

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¶12. (SBU) The two largest opposition blocks are the Movement for Change (PzP), headed by the charismatic and populist Nebojsa Medojevic, and Andrija Mandic's Serbian People's Party (SNS) and Serbian List (SL - a coalition of the SNS and small Serb parties). Mandic, who typically plays to a Serb nationalist voter base, claims to be personally disposed to pursue good relations with the U.S., but this summer he has elevated his nationalist rhetoric to attack NATO and U.S. foreign policy over the Russia-Georgia conflict. Unlike the other opposition groupings, the SL opposes NATO (but not EU) membership for Montenegro. PzP is pro-independence, pro-EU, but lukewarm on NATO.

¶13. (U) As in other transition countries in this region, corruption is present at all levels, and many Montenegrins list corruption as the country's biggest problem (along with low living standards). In this process, implementation of existing legislation will be key and the GoM has issued semiannual reports its progress. Post's new Resident Legal Advisor made a brief visit to Montenegro in August and will return in October to focus on rule of law issues.

Attracting Investment

¶14. (U) Montenegro has been successful in attracting significant foreign direct investment (FDI), though so far little of that has been American. The economy continues to expand, fueled by a boom in coastal tourism and investment. In the last two years, the GoM has tamed inflation, moved closer to WTO membership, privatized almost 90% of the economy, and successfully created a generally business-friendly environment which has produced the highest per capita rate of FDI in the region. The country established the lowest corporate tax rate in the region (9%) and dramatically improved its tax policy. Tourism and tourism-related investments, particularly along the Adriatic coast, are booming, and the independent World Travel and Tourism Council has ranked Montenegro as the top-growing tourism destination in the world.

¶15. (U) Montenegro currently is entering the largest investment cycle in its history as the GoM plans tenders totaling between 15 and 20 billion euros in infrastructure, tourism, energy, and the privatization of the remaining state-owned companies over the next two years. Eager to change the impression that only Russians are investing in Montenegro, the GOM is carrying out an aggressive "invest in Montenegro" campaign around the world, including in the United States.

¶16. (U) The GoM also is moving Montenegro full steam ahead into the WTO. Having reached agreement with the EU on terms of its WTO accession, the U.S. is now the main remaining bilateral partner with whom the GoM must reach an accord prior to joining the WTO. They hope to wrap up all negotiations by the end of 2008 and formally join the organization in early 2009.

MOORE